

Not Translated



Office of the
Auditor General

Bureau du
vérificateur général

Presentation to Public Accounts and Crown Corporations Committees

10:00 a.m. - 10:15 a.m. Introduction

10:15 a.m. - 11:00 a.m. Goals, Objectives and Performance Measures

11:00 a.m. - 12:00 noon Understanding Financial Statements

Lunch

1:30 p.m. - 2:30 p.m. How to Review an Annual Report

2:30 p.m. - 3:00 p.m. Public Sector Annual Reporting - Some Best
Practices in Canada

Conclusion

**Crown Corporation Committee
Public Accounts Committee**

Goals, Objectives and Performance
Measures

Goals and Objectives Module

Introduction

- Importance of setting goals
- Organizational planning
- Importance to PAC / CCC
- Suggested questions to ask

Importance of Setting Goals

- *"Our plans miscarry because they have no aim. When a person does not know what harbour they are making for, no wind is the right wind." Seneca*

Importance of Setting Organizational Goals

- *"Establishing a clear direction and identifying priorities is essential to any well-performing organization, whether a government, institution, agency or business. There is always a long list of valuable goals an organization could pursue. To move forward, it must select a critical few and organize its resources to achieve these. Put another way, the organization with too many priorities, in effect, has none."* preamble to 2001 Strategic Priorities report - City of Greater Sudbury

Key Aspects of Organizational Planning

- **Strategic Planning - visionary**
 - Define purpose of organization
 - Define strategic objectives
 - Design system of performance measurement and reporting
- **Business Planning - operational**
 - Develop strategies and approaches
 - Allocate/arrange resources

Purpose of Organization

- Answers the question "why does the organization exist"
- Answer should drive all organizational decision making and activity
- Usually called mission statement

Why is a Mission Statement useful for PAC/CCC to see?

- Shows management has thought about why their organization exists
- Provides a benchmark for assessing activity
- Should increase understanding about why organization exists
- Supports strategic objectives chosen

Sample Purpose/Mission Statements

NBDOT

- *"To provide and maintain a safe and efficient transportation system in all matters within provincial jurisdiction, and to advise on matters of federal jurisdiction"*

City of Greater Sudbury

- *"We provide excellent access to quality municipal services and leadership in the social, environmental and economic development of the City of Greater Sudbury."*

Strategic Objectives

- Break down mission statement into smaller, more focused, components
- State expected outcomes of organizational efforts
- Provide the basis for performance reporting.

Why Are Strategic Objectives Useful for PAC/CCC to see?

- Demonstrate that organization is thinking strategically
- Provide a benchmark for assessing activity
- Allows for accountability obligation to be discharged by establishing basis for performance reporting
- Should increase understanding of organizational priorities

Sample Strategic Objectives

NBDOT (excerpts)

- To improve transportation safety, reducing the number of accidents and fatalities.
- To maximize a sustainable level of service by making the best use possible of resources, systems and information.
- To be environmentally responsible, and to meet or exceed regulatory standards.

More Sample Strategic Objectives

City of Greater Sudbury (excerpts)

- To foster economic development and job creation and embrace the digital revolution.
- To promote the well-being of our citizens in a healthy, safe and stimulating community.
- To present Greater Sudbury to the world as a dynamic and vibrant community.

Business Plans

- Focus on operations (resourcing, programs, initiatives)
- Finite duration
- Often reworked annually to address changing circumstances (i.e. resource levels, environment, past success)

Why are Business Plans useful for PAC/CCC to see?

- Demonstrate management has planned activity and has a basis for resourcing decisions
- Should increase understanding of
- programs and initiatives being undertaken by the organization
 - linkage between strategic/business planning
 - how resource limitations effect operational decision-making

Suggested Questions to Ask Goals and Objectives

- Do you have a mission statement?
- Do you have strategic objectives?
- In determining your strategic objectives, what important areas did you exclude?
- For what reason were these excluded?
- When was the last strategic plan update?

More Suggested Questions to Ask - Goals and Objectives

- Do you have a business plan?
- How is your business plan linked to the strategic objectives and mission statement of the organization?
- What activities that you would like to undertake have been excluded in your current Business Plan?
- Why have those activities been excluded?

Crown Corporation Committee Public Accounts Committee

Goals, Objectives and Performance
Measures

Performance Measures Module

Why Measures?

- (P. Valentine) "A fundamental principle of accountability is that results should be evaluated in relation to the planned performance in order to determine whether:

- 1) desired outcomes are achieved
- 2) progress was made and value was received for money spent. "

Why Measures?

- "Unless you are keeping score, it is difficult to know whether you are winning or losing. This applies to ball games, card games and no less to government productivity." (Harry P. Hatry)

What do you measure with?

- Need measurable targets for objectives
- "Measurable objective means a specific, quantifiable outcome that defines how the agency will achieve its goals and that defines the actual impact on the public being served rather than the level of effort expended by the agency" (State of Maine *Act to Implement Performance Budgeting*)

What do you measure with?

- Need realistic and challenging targets
- "these measures present realistic, yet challenging targets for departments to strive towards and become accountable to achieve." (*Performance Measurement: Supplement to the Main Estimates, 1998-99*)

A Recent Example - DNRE

- *Crown Lands and Forests Act* - Purpose statement
- Talks of "integrated management" and "protection"
- "habitat for the maintenance of fish and wildlife populations"
- Indicator in annual report - population trends in five selected species
- So if those trends are stable or increasing, you have an "indicator" that they are protecting habitat

A Recent Example - Public Safety

- Road Safety Vision 2010.
- Has goal of 20% reduction in injuries and deaths due to speed related and intersection crashes by 2010.
- Can see how this might drive activity in the Department.
- Could have indicator or measure in annual report.
- What is the baseline?
- How are we doing in 2005? Will we make the objective by 2010?

A Recent Example RPC

- Strategic objective from 2000 annual report - Revenue growth
- Specific goal for 2000 was to "increase in excess of revenue over expenses - our bottom line."
- "We were not successful . . . While revenue grew costs also increased . . ."

Quote

re Performance Reporting

- *"The major problem is not making mistakes, but our apparent inability to learn from them."*

Potential Questions to Ask

- Do you measure each key objective?
- How often do you use them internally?
- Did you consider best practices? Other jurisdictions? Benchmarking?
- What was your process to develop them?
- When were these last updated?

**Crown Corporation Committee
Public Accounts Committee**

**Understanding
Financial Statements**

Introduction

- Qualities of good financial information
- Sources of financial information
- Techniques for analyzing financial statements

Introduction

- Questions a financial statement should help you answer.
- What a financial statement can't tell you.
- Summary.

**Primary Objective for Meeting
with an Organization**

Overall

- To allow CCC/PAC to hold organization accountable for overall performance.

Financial

- To allow CCC/PAC to hold organization accountable for financial performance.

**Key Qualities of Good Financial
Information**

- Understandable
- Relevant
- Reliable
- Comparable
- Timely
- Complete

**Who Influences Information
Quality?**

- Management of Organization
- Auditor
- Users (e.g. CCC and PAC)

Management's Effect on Quality

- Responsible for accounting
- Decides what to include/exclude in reports
- Decides upon presentation format

Ways Management Can Enhance Value of Financial Statements

Provide

- Interpretative comments to accompany F/S.
- Expenditure information by program.
- Clear, complete notes to F/S.

Also

- Keep volume of information down
- Always keep the user in mind!

Auditor's Effect on Quality

- Attests to fairness of management's financial statements in auditor's report.
- Work impacts on reliability, comparability, and completeness.
- Work has less impact on other qualities.

Auditor's Report

- F/S accurate, complete and comparable.
- Work limited to financial systems/items.
- Not a "clean bill of health" for organization.
- Management letter.

CCC/PAC (i.e. Users of Financial Information)

- Users are **THE** reason financial information is produced.
- Financial information users receive must be of good quality from their perspective.
- Users should request changes as needed.

Qualities - Problem Areas

- Understandable - jargon, complex
- Relevant - targeted towards other users
- Reliable - unaudited, observed errors
- Comparable - no comparative figures
- Timely - late delivery
- Complete - doesn't reflect all activity

Sources of Financial Information

- Public Accounts Volume I to V
- Organizational Annual Reports
- Auditor General's Report

Public Accounts Volume I

- Audited Financial Statements of the Provincial Reporting Entity
- Statement of Responsibility/Major Variance Analysis
- Auditor's Report

Public Accounts Volume II

- Unaudited Supplementary Information
 - Supplementary appropriations
 - Revenues and expenditures by department
 - Payments and disbursements
 - Other summary level information

Public Accounts Volume III

Audited Financial Statements of Agencies, Boards and Commissions

- All are audited.
- Redundant information in many cases.

Public Accounts Volumes IV/V

IV - Financial Statements of Trust Funds administered by the Province

- Many are unaudited

V - Salary listings for certain government organizations.

Annual Reports

Departmental (PAC)

- Limited financial information, no F/S

Agencies, Boards and Commissions (CCC)

- Contain full audited financial statements

Auditor General's Report

- Can be financial information throughout
- Chapter 2 re Indicators of Province's Financial Condition

Techniques for Analyzing Financial Information

Revenues and Expenditures

- Compare budget to actual and select variances over a certain \$ figure and %.
- Compare actual over actual year to year and select variances over a certain \$ figure and %.
- Select large \$ program items.

Techniques for Analyzing Financial Information

- Look at major changes in asset and liability accounts.
- Look at notes in conjunction with F/S items.

Suggestions to Improve Understanding of F/S

Send out standard questions in advance

- Have attendees make a brief presentation on
 - budget
 - summary financial results
 - issues arising
 - comparisons with other organizations

Questions a Financial Statement Should Help You Answer.

- Did management limit expenditures to available resources?
- Are current revenues sufficient to meet organizational mandate?
- What major financial issues/risks are facing the organization?

Questions a Financial Statement Should Help You Answer.

- Is the organization financially viable at current funding levels?
- What did the organization do during the past year?
- What major changes in programs/activities took place during the year?

Follow Up Questions

- Were there any programs that were planned but not undertaken?
- If applicable, why were financial targets not met, and what actions will be taken to ensure that targets are met in the future?
- How do you intend to address major financial issues/risks facing the organization?

More Follow Up Questions

- How did major activities undertaken during the year help you achieve organizational goals?
- How did changes to activities during the year make you better able to achieve organizational goals?

What a Financial Statement Cannot Tell You

- Provides no information re how the level of resources impacted on the ability of the organization to achieve its goals.
- Provides no indication of organizational performance in non-financial areas.
- Provides no indication of compliance with Legislation/Government policy

Summary

- Request changes where financial information does not meet your needs.
- Use financial statements as an indicator of organizational financial performance only.
- Use review of financial statements to identify key organizational activities and changes.

How to Review an Annual Report

Outline for session

The annual report is the key accountability document for departments and agencies (AD-1605)

This presentation provides an overview of an approach to reviewing annual reports.

Our objective is to assist the committees in developing strategies to use in their sessions with departments and agencies

- Introduction
- Framework
- Policy AD-1605
- Awards process
- Approach to questions
- Wrap-up

Framework

- First session dealt with framework of why objectives and measures
- Framework links programs to MLA's and citizens
- Why does organization exist?
- Where are they headed? its key objectives/plans?
- How well did they do? - measures
- What should be done differently?

Policy AD-1605

- Sets out annual report as "major accountability document"
- Accountability = obligation to answer for responsibility conferred
- "for the Legislative Assembly and the general public"
- Addresses the "where" and "how well" questions

Policy AD-1605

- "key public link between objectives and plans of a government entity and the results obtained."
- "Clear account of goals, objectives . . . And performance indicators"
- in other words "how well the organization did in achieving its plans."

Policy AD-1605

- "how well a program was accepted by its client groups"
- may be overlooked - but some deal with it
- "extent to which a program continues to be relevant"
- probably the most difficult to report on

Policy AD-1605

- "actual and budget financial information in summary form"
- "narrative explaining major variances"
- "other aspects of financial performance"
- Session by EDH covered much of this area

Policy AD-1605

- Format and presentation
- "clear and simple language"
- "glossary to explain technical terms"
- tables/charts to "aid the reader"
- reader understanding - important focus back to the Legislative Assembly and general public

Policy AD-1605

- Timeliness of information
- Timeliness - by November 1
- Seven months
- Actually late versus Alberta, corporate world
- Number of Crown agencies mandated by Acts to report sooner

AG Awards Process

- Concept has been discussed in the Office of the Auditor General for a number of years
- Auditor General has been judge on federal panel for past three years
- Motivation for departments; try to encourage good reporting
- Based on compliance with AD-1605 and other accepted standards

AG Awards Process

- Departments have been informed
- AG has sent basic outline of requirements/criteria
- Uses AD-1605 and other criteria
- Will apply to all reports tabled by December 15
- Distinguished panel of judges

AG Awards Process

- OAG has developed a score sheet to be used by our team and panel of judges.
- Score sheet may be useful to MLA's in developing questions to ask when reviewing annual report
- Copy of score sheet in handout
- Let's look at a few selected questions

Approach to Questions

- Scoring begins with overview
- Important to get flavour of organization
- "Report summarizes mission/mandate, its environment and its products and services"
- Session one talked about mission
- Health and Wellness 31/3/2000

Approach to Questions

- "Objectives are linked to performance indicators/measures so that it is clear how well the department did in achieving its plans"
- Is there an "oil light" for each key objective? Is the "oil light" on?
- Good test - When was the last time someone used one at a meeting?

Approach to Questions

- Does "the report discuss the reasons for success and/or failure with each of the objectives"
- If the "oil light" is on, does the report tell you why?
- Does something need to be changed?
- Is it the right measure?

Approach to Questions

- Does the report discuss "the extent to which key programs are accepted by its client groups"
- Look at reach of program - Did we get to enough of the right people?
- Could be surveys of satisfaction, quality of service - ex. Housing programs; Might analyze client complaints

Approach to Questions

- Does the report give "information and advice on program relevance?"
- P. Drucker - "Is it still worth doing?"
- "If we were not already doing this would we now go into it?"
- "Overall answer is almost never 'This is fine as it stands'"
- "We know it works" - Drucker Atlantic Monthly Feb 1995

Approach to Questions

- Does the report present information on how well the department is doing in administering the legislation it has been assigned?
- Does the report provide advice that the MLA's can use in considering the need for legislation to be developed or amended?
- OAG findings re legislation

Approach to Questions

- Financial summary and analysis
- Please refer to session by EDH
- One? may be can data "be easily reconciled to the Main Estimates and the Public Accounts?"
- Also is the report "defining the criteria for significant variance?"

Approach to Questions

- Presentation - standard formats
- Does the report avoid "information overload"?
- Is there redundant information and excessive detail?
- What about balanced reporting? Can you show me? RPC example.

Approach to Questions

- And did they meet November 1 deadline?
- If they didn't, what can they change?
- Seven months is the deadline.
- Is someone really doing well if they had it there November 1?
- Need earlier delivery to impact next year's budget

Wrap up

- Important to link things back to the framework
- AD-1605 and the score sheet can be of use in elaborating on this framework

Auditor General 2001 Award for Excellence in Annual Reporting by Departments

Annual Report Evaluation Worksheet - 2001
Province of New Brunswick

Name of Department:

Completed by:

	5	3	1	0	Report Reference	Comments
	Strongly Agree	Agree	Somewhat Agree	Disagree		

A. CONTENT AND NATURE OF INFORMATION

1. Overview.

(i) The report summarizes the department's mission/mandate, its environment and its products and services.						
(ii) The report contains a summary of the key legislation for which the department is responsible and relates the legislation to the mandate/mission.						
(iii) The report contains a chart, table, etc. that helps the reader identify how the report itself is in compliance with the policy on annual reports.						

2. Review of Plans and Performance

(i) The report contains summary information or highlights through such things as an overview section, deputy minister's message, etc.; this information gives a good sense of the challenges faced and the high points of the year in a fair and balanced manner.						
(ii) The report gives a clear account of the organization's goals/objectives.						
(iii) Objectives are stated in an appropriate level of detail. They are measurable or, at least, facilitate the indication of the degree of achievement.						
(iv) The objectives for the department deal with matters central to its operations and are consistent with, and supportive of, the achievement of the mission/mandate.						
(v) Objectives are linked to performance indicators/measures so that it is clear how well the department did in achieving its plans.						
(vi) Performance reporting consists of quantitative and qualitative information, that clearly presents results against targets.						
(vii) The report discusses the quality of the data for the indicators and/or the information systems that produced it. Where possible indicators are linked to some external sources (such as Stats Canada) to enhance the credibility of information.						
(viii) The report discusses the reasons for success and/or failure with each of the objectives including such things as environmental conditions, external impacts, key challenges, resources.						
(ix) The report discusses the extent to which key programs are accepted by its client groups.						
(x) The report provides information and advice on "program relevance" that the MLA's can use in considering the continuing need for certain programs and/or changes to the program mandate.						
(xi) The report presents information on how well the department is doing in administering the legislation it has been assigned.						
(xii) The report provides information and advice that the MLA's can use in considering the need for legislation to be developed or amended.						

Auditor General 2001 Award for Excellence in Annual Reporting by Departments

	5	3	1	0	Report Reference	Comments
	Strongly Agree	Agree	Somewhat Agree	Disagree		

3. Financial Summary and Analysis

(i) The report contains actual to budget comparisons of expenditures as described in the appendix to the policy.						
(ii) The report shows expenditures funded by non-base budget sources (examples include Environmental Trust Fund, RDC) to provide a total picture of program expenditures.						
(iii) The report contains actual to budget comparisons of revenues from all major sources.						
(iv) Explanations are given for significant variances in financial performance against budget plans, clearly elaborating significant variances. This includes defining the criteria for "significant variance".						
(v) Information can be easily reconciled to the Main Estimates and the Public Accounts.						
(vi) The report links the planned and actual expenditures to the objectives discussed in Review of Plans and Performance						
(vii) The reports also contains other aspects of financial performance such as : - Historical information on revenues/expenditures - Information on major assets, liabilities (guaranteed loans for example) - "profit/loss" for business-type components of operations						

B. PRESENTATION

(i) The report design and format can be described as well organized, logical, and easy to read and to understand. The language and style used are simple, clear, concise and generally without jargon and/or technical terms or phrases.						
(ii) The report makes good use of charts, graphs, & tables to help users better understand statistics and financial data. Charts, graphs & exhibits are cross-referenced to the appropriate portion of the body of the document.						
(iii) The report is printed by the Department of Supply & Services using the standard cover and bilingual side-by-side format. Visual effects are innovative and graphical integrity is maintained. The report does not contain photographs.						
(iv) The information presented in the reports is relevant and useful, especially for MLA's and taxpayers. In other words, the report avoids "information overload" caused by redundant information and excessive detail.						
(v) Supplementary information such as a directory, a glossary of terms specific to the operation or department and a pertinent table of contents are included.						
(vi) The report conveys a sense of integrity in that it is balanced and openly presents negative as well as positive results.						
(vii) The report was tabled on a timely basis.						

SCORE

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OTHER/GENERAL COMMENTS

Public Sector Annual Reporting -Some Best Practices In Canada-

Some Significant Canadian Events

- Establishing Performance Reporting Principles (CCAF & CCOLA)
- Proposing Standards for Management Discussion and Analysis (PSAB)
- Award for Excellence in Annual Reporting (Federal Crown Corporations) - OAG
- Award for Best Departmental "Performance" Report. (CCAF)

Why the Interest In Public Reporting?

- Reflects the responsibility to report to legislators and taxpayers
- Builds on the goals, objectives and performance measurement process
- Reflects the complexity of government

What Would Be Some Annual Report Best Practices?

- Easy to read and understand
- Explains objectives and results
- Provides a narrative on key financial results (and discusses budget to actual)
- Balanced commentary (+’s and -’s)
- Discusses future goals and challenges
- Reports on all major issues

**The Farm Credit Corporation
Why It Won the Federal AG Award**

- Positive Points
 - Corporate values (inside front cover)
 - Five-year Operational Highlights (pages 2 & 3)
 - Performance Against Objectives (pages 10 - 13)
 - Management Discussion & Analysis (39 to 46)
 - Outlook for Next Year (page 51)
 - Complete set of Financial Statements (53 to 72)
 - Corporate Governance Section (73 to 80)
 - Glossary of Terms (page 81)

**The Farm Credit Corporation
Why It Won the Federal AG Award**

- Negative Points
 - Messages by Senior Executives (pages 4 to 7)
 - No Actual to Budget Commentary
 - Message from the Minister was questionable since Board is accountable to him (page 8)

Where Do We Go From Here?

- Orientation for All New Members?
- Annual Training Program At Start of Each Session?
- Use of Specialists in Various Fields?
 - Performance Reporting
 - Governance and Accountability
- There Would Be Great Value If Policies Were Adopted!!
